



0000198971

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

Arizona Corporation Commission

ROBERT "BOB" BURNS - Chairman
 BOYD DUNN
 SANDRA D. KENNEDY
 JUSTIN OLSON
 LEA MÁRQUEZ PETERSON

DOCKETED

JUL 10 2019

DOCKETED BY

WJ

In the matter of:

DOCKET NO. S-21064A-18-0402

VERDUGO ENTERPRISE LLC, an
 Arizona limited liability company d/b/a
 VERDUGO GIFT COMPANY,

DECISION NO. 77271

ISAIAS M. VERDUGO, a single man,

JAIME A. VERDUGO, a single man,

MARIA G. VERDUGO, a single woman,

MARIO C. VERDUGO Jr., a single man,

TEODORO M. MEDELLIN and SILVIA
 MEDELLIN, husband and wife, and

FILEMON G. CABALLERO, a married
 man,

Respondents.

**ORDER TO CEASE AND DESIST, ORDER
 FOR RESTITUTION, ORDER FOR
 ADMINISTRATIVE PENALTIES, AND
 ORDER FOR OTHER AFFIRMATIVE
 ACTION**

AGAINST: JAIME A. VERDUGO

On December 17, 2018, the Securities Division ("Division") of the Arizona Corporation Commission ("Commission") filed a Notice of Opportunity for Hearing Regarding Proposed Order to Cease and Desist, Order for Restitution, Order for Administrative Penalties, and Order for other Affirmative Action (the "Notice") against Jaime A. Verdugo and others.

On December 22, 2018, the Division served a copy of the Notice, upon Jaime A. Verdugo, by delivering to Jaime A. Verdugo, via certified mail to his last known residence. To date, no request for hearing or answer to the Notice has been filed by Jaime A. Verdugo.

...

...

I.**FINDINGS OF FACT**

1. Verdugo Enterprise LLC (“Verdugo Enterprise”) is a manager-managed limited liability company that was organized under the laws of the state of Arizona in June 2006. At all times relevant, Verdugo Enterprise was doing business as Verdugo Gift Company (“VGC”), and neither Verdugo Enterprise nor Verdugo Gift Company were registered with the Commission as a securities salesman or dealer.

2. At all times relevant, Isaias M. Verdugo (“I.M. Verdugo”) has been a resident of Arizona. I.M. Verdugo is the sole manager and statutory agent for Verdugo Enterprise and has not been registered with the Commission as a securities salesman or dealer.

3. At all times relevant, Jaime A. Verdugo (“J.A. Verdugo”) has been a resident of Arizona. J.A. Verdugo has not been registered with the Commission as a securities salesman or dealer.

4. J.A. Verdugo may be referred to as the “Respondent.”

5. In 2006, I.M. Verdugo created VGC for the purpose of purchasing bulk quantities of “home decor” products and reselling these products for a profit. I.M. Verdugo and Verdugo Enterprises operated VGC out of a garage and stored the products there. I.M. Verdugo sold VGC’s products at swap meets, street corners, yard sales, and to family and friends. Later, Verdugo Enterprises established a website for VGC and sold products online.

6. In 2009, VGC began to sell products through Amazon.com, Inc. (“Amazon”). During this time-period, Verdugo Enterprises stopped storing inventory in a garage; instead, used drop shipping companies to fulfill VGC’s orders on Amazon. VGC listed various drop shipping companies’ home decor products on Amazon and sold the products for a profit. When, VGC received a sale on Amazon, VGC “placed the order with the drop shipper and they shipped it directly to the customer.”

7. Eventually, VGC sales began to “take off” on Amazon. In 2013, VGC leased warehouse space, which included an attached office space in Phoenix, Arizona. Shortly thereafter,

1 VGC resumed purchasing bulk quantities of home decor products. VGC shipped most of the products
2 to an Amazon Fulfillment Center, which stored the VGC inventory. Amazon shipped the VGC orders
3 directly to the customers. VGC also maintained inventory in its warehouse, which was used to drop
4 ship home decor products for various online retailers [including Wayfair, Inc. and Overstock.com,
5 Inc.] for a profit. If a drop ship order was placed with VGC, VGC shipped the products directly to
6 the online retailers' customers.

7 8. VGC was a "very profitable business on Amazon," if VGC purchased \$1000 in
8 inventory it "could easily make that into \$2,000" or "\$2,500." Verdugo Enterprises "wanted to grow"
9 VGC as quickly as possible. Subsequently, VGC hired J.A. Verdugo and others.

10 9. As VGC's business grew, VGC needed more capital to purchase inventory. J.A.
11 Verdugo and others solicited and raised capital from investors ("VGC Investors"), primarily from
12 Hispanic Christian churches and/or their congregations, mostly in Arizona.

13 10. J.A. Verdugo and others were able to raise investment capital from Hispanic Christian
14 communities in Arizona and the surrounding states, because of their various connections to these
15 communities. J.A. Verdugo grew up attending a local Hispanic Christian church, and some of the
16 VGC Investors knew him from church. Many of the VGC Investors trusted J.A. Verdugo, and the
17 VGC investment opportunity, because of the Respondent's church affiliations.

18 11. From at least 2015 through at least 2017, several hundred VGC Investors invested in
19 short-term Notes and were promised 10-20% interest compounded monthly. J.A. Verdugo and others
20 represented to VGC Investors that they would at least receive their principal investments back. J.A.
21 Verdugo and others allowed and/or encouraged a significant amount of the VGC Investors to roll
22 over their Notes [with the same and/or similar terms] for several months and/or years past the original
23 maturity date of the Notes. Each time a Note was rolled over, a new Note was executed, which
24 reflected the new maturity date and the increased promised amount due on the new maturity date.

25 12. Most of the VGC Investors that rolled over their Notes for numerous cycles were
26 promised significant returns [sometimes six figure returns]; however, many of these VGC Investors

1 did not receive their principal investments back and did not receive any returns and/or only received
2 partial returns on their investments. J.A. Verdugo and others failed to disclose to some of the later
3 VGC Investors that some prior VGC Investors did not receive any returns on their investments and
4 did not receive their principal investments back.

5 13. From at least January of 2015, until at least January of 2017, J.A. Verdugo and others
6 offered and sold securities in form of Notes within or from Arizona to at least 380 VGC Investors,
7 of which at least 337 of the VGC Investors were Arizona residents. The VGC Investors collectively
8 invested at least \$6,303,376.22. J.A. Verdugo and others represented to the VGC Investors that they
9 were raising investment capital to purchase inventory [home decor products] for the purpose of
10 fulfilling online orders.

11 14. All Notes were written in English and essentially identical, except for the listing of
12 the VGC Investor's name, principal investment amount, promised interest rate, and maturity date.
13 The Notes contained the following same or similar relevant language:

- 14 • Parties: VGC is the "borrower;"
- 15 • Repayment: the borrower will repay the amount of this note in full (principal plus
16 interest) on the specified due date;
- 17 • Default: if for any reason the borrower fails to make any payments on time, borrower
18 shall be in default. The lender can demand immediate payment of the entire remaining
19 unpaid balance of the note, without further notice; and
- 20 • **Principal guarantee: VGC agrees to keep assets equal to or greater than the value**
21 **of all combined investment loans. In the event of non-payment of this note assets**
22 **should be sold, and proceeds collected should be used to pay the principal**
23 **amount of this note. VGC must furnish a detailed statement of all assets upon**
24 **written request within 14 business days of receiving the request** (emphasis added).

25 15. VGC Investors' only role was to provide capital and they did not have any
26 discretionary authority regarding VGC's business operations. J.A. Verdugo and others represented

1 to the VGC Investors that their investments were safe and guaranteed that they would at least get
2 their principal investments back. J.A. Verdugo and others further represented to the VGC Investors
3 that would get paid back from the profit of VGC's online sales proceeds.

4 16. During the above relevant time-period, many congregants from various Hispanic
5 Christian churches and/or communities heard about the VGC investment opportunity by "word of
6 mouth" and/or from others. Many of these congregants contacted VGC's office, via telephone, and/or
7 just went [without appointments] to VGC's office to learn more about the investment opportunity
8 and/or to find out if VGC was still accepting investors. J.A. Verdugo and others informed these
9 potential investors ("Offeree(s)") that VGC was still accepting investors and described VGC as an
10 online business that sold home decor products mainly online through Amazon, and that investment
11 capital was being raised to buy more inventory.

12 17. Many of the congregants and/or others that were interested in VGC's investment
13 opportunity, only spoke Spanish. J.A. Verdugo and others discussed the VGC investment opportunity
14 in Spanish with these Offerees and/or translated the terms of Notes from English to Spanish. Based
15 on the above-mentioned representations, including the guaranteed return of principal, the Offerees
16 invested.

17 **\$6,000 Policy**

18 18. From at least October 2016, through at least January 2017, VGC instituted and
19 enforced an unwritten investment return policy, which restricted the amount of money a VGC
20 Investor could be paid out on his or her Note. VGC Investors were limited to receiving only \$6,000
21 every two-weeks ("\$6,000 Policy"); even if the VGC Investors' Notes were due in full and they were
22 owed more than \$6,000 and/or they did not want to roll over their Notes. In effect, the \$6,000 Policy
23 forced many of the VGC Investors to roll over their Notes every two-weeks, which is contrary to the
24 explicit terms of Notes.

25 ...

26 ...

1 19. The \$6,000 Policy was not written in any of the VGC Investors' Notes, and some of
2 the VGC Investors "weren't too happy" about finding out this policy after they invested and/or were
3 expecting to receive a full return of their investments during this time-period.

4 **J.A. Verdugo**

5 20. In or about 2015, J.A. Verdugo began working full time in VGC's warehouse and
6 attached office space. J.A. Verdugo assisted Offerees [primarily the Spanish speaking ones] and VGC
7 Investors that wanted to roll over their Notes. J. A. Verdugo discussed VGC's investment opportunity
8 in detail, including the guaranteed return of the principal with the Offerees. J.A. Verdugo also
9 translated the Notes from English to Spanish for many of the VGC Investors.

10 21. During the relevant time-period, J.A. Verdugo rolled over Notes for at least ten VGC
11 Investors. J.A. Verdugo executed at least one of the rolled over Notes.

12 22. On October 25, 2016, J.A. Verdugo represented to at least one VGC Investor that
13 "VGC had a lot of money and that he would pay out of his pocket if any problems occurred with the
14 rolled over Note." Contrary to that statement, there were at least eight prior VGC Investors whose
15 Notes were due on or before October 22, 2016, and none of these VGC Investors received any returns
16 on their investments and did not receive their principal investments back.

17 23. J.A. Verdugo offered and sold Notes to at least three VGC Investors.

18 24. In November of 2016, J.A. Verdugo represented to at least two VGC Investors that
19 their investments were safe and/or there were no risks involved with their investments. Contrary to
20 that statement, there were at least eight prior VGC Investors whose Notes were due on or before
21 October 22, 2016, and none of these VGC Investors received any returns on their investments and
22 did not receive their principal investments back.

23 25. J.A. Verdugo failed to disclose the \$6,000 Policy to any of the above-mentioned VGC
24 Investors prior to their investments.

25 ...

26 ...

1 **December 2016 through January 2017**

2 26. During the months of December 2016, through January 2017, J.A. Verdugo and others
3 actively encouraged VGC Investors to roll over their Notes and/or invest in new Notes. J.A. Verdugo
4 contacted multiple VGC Investors and represented that VGC was having a special 20% interest sale
5 on new Notes and suggested that they invest in new Notes.

6 27. From December 1, 2016, through January 26, 2017, J.A. Verdugo and others raised
7 at least \$1,409,875 in new investment capital. However, many VGC Investors whose Notes were due
8 did not get paid and/or were informed that they could only receive \$6,000, because of the new \$6,000
9 Policy. Many were forced to roll over their Notes. Numerous VGC Investors were told by J.A.
10 Verdugo and others that VGC ran out of checks [to pay out on their Notes] and suggested that they
11 come back later.

12 28. From at least January 13, 2017, through at least January 26, 2017, J.A. Verdugo and
13 others continued to offer and sell Notes, even though VGC could not afford to pay-out on of the older
14 Notes. During this time-period, J.A. Verdugo and others raised at least \$337,600 from at least 41
15 VGC Investors.

16 29. J.A. Verdugo and others failed to disclose to many of the later VGC Investors that
17 some of the prior VGC Investors did not receive any returns on their investments and did not receive
18 the return of their principal investments.

19 30. On or about January 27, 2017, VGC [without notice to the VGC Investors] closed its
20 doors to the public, even though at least 150 VGC Investors were still owed money, including their
21 principal investments. Several of these VGC Investors that did not receive any returns on their
22 investments and did not receive a return of their principal investments and/or only received a partial
23 return of their investments, were the same ones as mentioned-above, that were forced and/or
24 encourage to roll over the Notes, and/or were told to come back at later date, because VGC ran out
25 of checks.

1 31. During the relevant time-period, VGC Investors collectively invested at least
2 \$6,303,376.22 and have received at least \$188,936.09 back. The remaining principal owed is at least
3 \$6,114,440.13.

4 **Misrepresentations and Omissions of Material Fact**

5 32. On October 25, 2016, J.A. Verdugo misrepresented to at least one VGC Investors that
6 “VGC had a lot of money and that he would pay out of his pocket if any problems occurred with the
7 Note,” when in fact, there were at least eight prior VGC Investors whose Notes were due on or before
8 October 22, 2016, and none of these VGC Investors received any returns on their investments and
9 did not receive their principal investments back.

10 33. In November of 2016, J.A. Verdugo misrepresented to at least two VGC Investors
11 that their investments were safe and/or there were no risks involved with their investments, when in
12 fact, there were at least eight prior VGC Investors whose Notes were due on or before October 22,
13 2016, and none of these VGC Investors received any returns on their investments and did not receive
14 their principal investments back.

15 34. Respondent failed to disclose the \$6,000 Policy to some of the VGC Investors.

16 35. Respondent failed to disclose to many of the later VGC Investors that some of the
17 prior VGC Investors did not receive any returns on their investments and did not receive the return
18 of their principal investments.

19 **II.**

20 **CONCLUSIONS OF LAW**

21 1. The Commission has jurisdiction over this matter pursuant to Article XV of the
22 Arizona Constitution and the Securities Act.

23 2. Respondent offered or sold securities within or from Arizona, within the meaning of
24 A.R.S. §§ 44-1801(16), 44-1801(22), and 44-1801(27).

25 3. Respondent violated A.R.S. § 44-1841 by offering or selling securities that were
26 neither registered nor exempt from registration.

1 4. Respondent violated A.R.S. § 44-1842 by offering or selling securities while neither
2 were registered as a dealer or salesman nor exempt from registration.

3 5. Respondent violated A.R.S. § 44-1991 by (a) employing a device, scheme, or artifice
4 to defraud, (b) making untrue statements or misleading omissions of material facts, and or (c)
5 engaging in transactions, practices, or courses of business that operate or would operate as a fraud or
6 deceit.

7 6. Respondent's conduct is grounds for a cease and desist order pursuant to A.R.S. § 44-
8 2032.

9 7. Respondent's conduct is grounds for an order of restitution pursuant to A.R.S. § 44-
10 2032.

11 8. Respondent's conduct is grounds for administrative penalties under A.R.S. § 44-2036.

12 III.

13 ORDER

14 THEREFORE, on the basis of the Findings of Fact, and Conclusions of Law, the Commission
15 finds that the following relief is appropriate, in the public interest, and necessary for the protection
16 of investors:

17 IT IS ORDERED, pursuant to A.R.S. § 44-2032, that Respondent, and any of Respondent's
18 agents, employees, successors and assigns, permanently cease and desist from violating the Securities
19 Act.

20 IT IS FURTHER ORDERED, pursuant to A.R.S. § 44-2032, that Respondent Jaime A.
21 Verdugo shall pay restitution to the Commission in the principal amount of \$381,954.79 [minus any
22 offsets] as a result of the conduct set forth in the Findings of Fact and Conclusions of Law. Payment
23 is due in full on the date of this Order. Payment shall be made to the "State of Arizona" to be placed
24 in an interest-bearing account controlled by the Commission. Any principal amount outstanding shall
25 accrue interest at the rate of 10 percent per annum from the date of purchase until the date of this
26 Order.

1 IT IS FURTHER ORDERED that the restitution ordered in the preceding paragraph will
2 accrue interest, as of the date of the Order, at the rate of the lesser of (i) ten percent per annum or (ii)
3 at a rate per annum that is equal to one per cent plus the prime rate as published by the board of
4 governors of the federal reserve system in statistical release H. 15 or any publication that may
5 supersede it on the date that the judgment is entered.

6 The Commission shall disburse the funds on a pro-rata basis to investors shown on the records
7 of the Commission. Any restitution funds that the Commission cannot disburse because an investor
8 refuses to accept such payment, or any restitution funds that cannot be disbursed to an investor
9 because the investor is deceased shall be disbursed on a pro-rata basis to the remaining investors
10 shown on the records of the Commission. Any funds that the Commission determines it is unable to
11 or cannot feasibly disburse shall be transferred to the general fund of the state of Arizona.

12 IT IS FURTHER ORDERED, pursuant to A.R.S. § 44-2036, that Respondent Jaime A.
13 Verdugo shall pay an administrative penalty in the amount of \$20,000 as a result of the conduct set
14 forth in the Findings of Fact and Conclusions of Law. Payment is due in full on the date of this Order.
15 Payment shall be made to the "State of Arizona." Any amount outstanding shall accrue interest as
16 allowed by law.

17 IT IS FURTHER ORDERED that the administrative penalty ordered in the preceding
18 paragraph will accrue interest at the rate of the lesser of (i) ten percent per annum or (ii) at a rate per
19 annum that is equal to one per cent plus the prime rate as published by the board of governors of the
20 federal reserve system in statistical release H. 15 or any publication that may supersede it on the date
21 that the judgment is entered.

22 IT IS FURTHER ORDERED that payments received by the state of Arizona shall first be
23 applied to the restitution obligation. Upon payment in full of the restitution obligation, payments
24 shall be applied to the penalty obligation.

25 ...

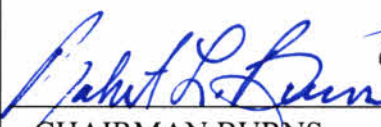
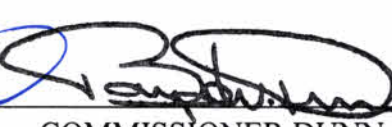
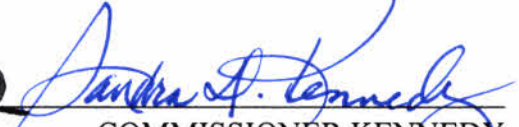
26 ...



IT IS FURTHER ORDERED, that if the Respondent fails to comply with this order, the Commission may bring further legal proceedings against the Respondent, including application to the superior court for an order of contempt.

IT IS FURTHER ORDERED, that no finding of fact or conclusion of law contained in this Order shall be deemed binding against any Respondent under this Docket Number who has not consented to the entry of this Order.

IT IS FURTHER ORDERED that this Order shall become effective immediately.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION

  
CHAIRMAN BURNS COMMISSIONER DUNN COMMISSIONER KENNEDY

 
COMMISSIONER OLSON COMMISSIONER MÁRQUEZ PETERSON



IN WITNESS WHEREOF, I, MATTHEW J. NEUBERT, Executive Director of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this 10 day of July, 2019.


MATTHEW J. NEUBERT
EXECUTIVE DIRECTOR

DISSENT

DISSENT

This document is available in alternative formats by contacting Kacie Cannon, ADA Coordinator, voice phone number (602) 542-3931, e-mail kcannon@azcc.gov.

(MS)

1 SERVICE LIST FOR: Jaime A. Verdugo

2 Jamie A. Verdugo
3 5305 S 8th Drive
4 Phoenix, AZ 85041
5 (*Respondent*)
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26